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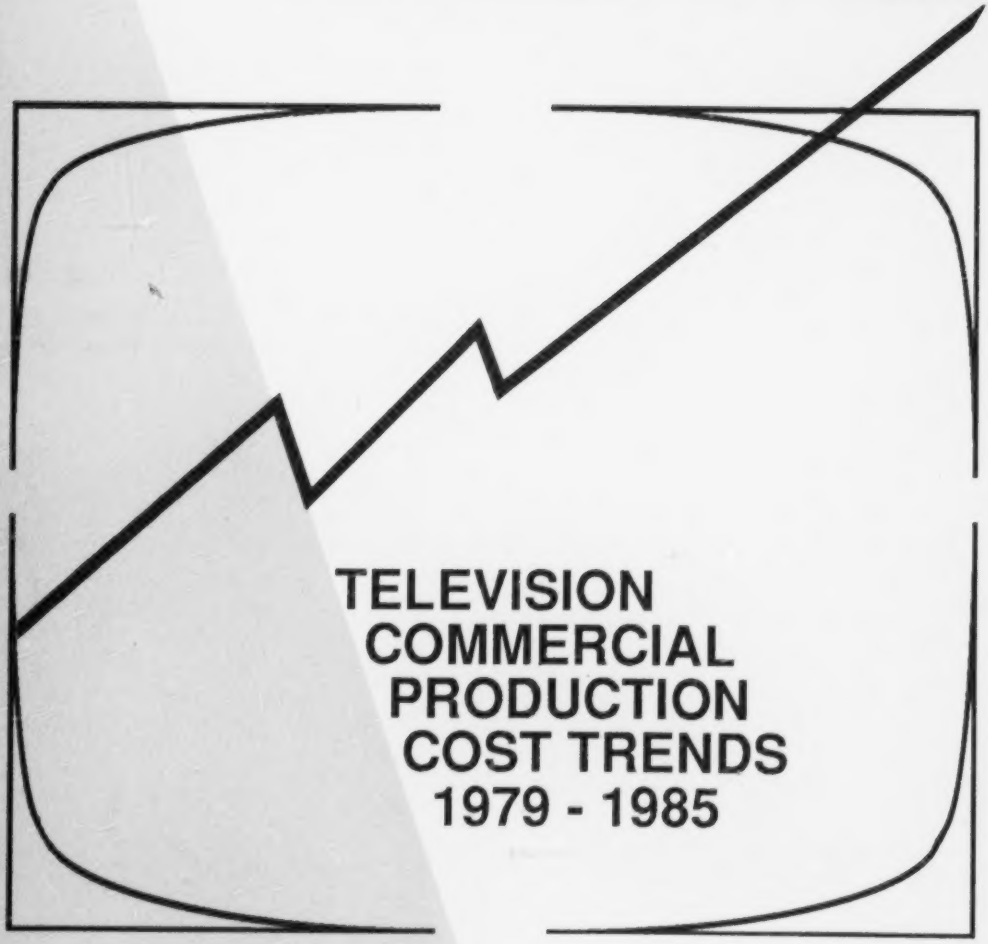

TELEVISION COMMERCIAL PRODUCTION COST TRENDS 1979 - 1985

ANA

Prepared under the auspices of the A.N.A. Advertising Management Committee, this study:

Assesses the extent to which production costs have increased;

Analyzes the reasons for such increases;

Provides suggested procedures for better management and control of production costs.

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FOREWORD

The issue of escalating television commercial production costs has been of increasing concern to advertisers. As a result, in February 1985 the A.N.A. published a report, "Television Commercial Production Cost Trends 1979-1984." This study confirmed that TV production costs were, indeed, increasing significantly faster than the CPI; detailed some of the factors that were causing this escalation; and suggested ways for advertisers to address the problem.

This report generated considerable attention in both the advertiser and advertising agency communities. The A.A.A.A., through its Client Service Committee, launched a series of broadcast production seminars in early 1986. The A.N.A. is currently considering a TV Commercial Production Workshop for its membership.

Because of this strong degree of interest, the A.N.A. Advertising Management Committee decided to update the study, using 1985 vs. 1984 data. We were fortunate to once again retain the services of advertising production consultant, Albert P. Stauderman of Bird Bonette Stauderman, to oversee the project. Mr. Stauderman's continued participation ensures a high degree of comparability between this project and its predecessor.

The Committee is grateful to the advertisers and other industry sources who contributed data and thinking to the project; to Committee Chairman William S. McGranahan of Richardson-Vicks, Committee Member Robert K. Powell of Kraft, and A.N.A. Vice President Peter F. Eder for their help in the preparation of this report; to the A.A.A.A. Client Service Committee which participated in the review of the study findings; and, of course, to Mr. Stauderman.

Robert Klugman
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Chairman
Survey Subcommittee
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May, 1986

Background

Responding to widespread concerns about increasing TV commercial production costs among its member companies, the A.N.A. Agency Relations Committee conducted a survey in 1984 of production costs since 1979. Findings were reported in a booklet entitled "Television Commercial Production Cost Trends 1979-1984" published in February 1985. The study confirmed the concerns by documenting a 99% increase in costs over the five-year period. During the same span, shooting hours per commercial in the sample went from 10.1 in 1979 to 13.3 in 1984, an increase of 31%. While a variety of reasons accounted for this virtual doubling of costs from 1979-84, the increase in time spent shooting commercials was considered to be a dominant contributing factor.

Given the high level of interest expressed by member companies, the A.N.A. Advertising Management Committee decided to continue these surveys on an annual basis. In this way members could track and compare their year-to-year cost performance with that of the industry as a whole and could perhaps benefit from any significant findings which might suggest ways to control costs on their own TV production work. As with the earlier survey, the findings are being shared by the A.N.A. Committee with the A.A.A.A. Client Service Committee.

Methodology

As with the 1979-84 survey, questionnaires were sent to A.N.A. member companies. In all, 75 companies were canvassed. They represented a cross-section of advertisers, including several that were known to track commercial production costs on a regular basis and some that employ in-house staff or outside consultants to monitor expenditures. All companies participating in the 1979-84 survey were resurveyed.

Respondents were asked to provide costs for 1984 and 1985 commercials. In posing the questions, care was taken to insure that the respondents would compare the costs of similar commercials. This was done so as to avoid a variable in production type which might skew the findings. Three qualitative questions were also asked, seeking impressions on the state of cost control in the business and trying to identify those factors which might account for any cost changes.

Interviews with various industry sources and follow-up questions to numerous respondents served to clarify and amplify the information obtained via the survey.

Responses from 17 advertisers qualified for entry into our base (a significant increase over the 10 usable responses which constituted the 1979-84 cost study). These responses provided a sizable sample of 199 commercials in 1985 and 208 in 1984. While most of the data reported here came from package goods companies, the sample included hard goods, high-tech products, services and retail advertisers. With a mix of large and small companies, a reasonably broad-based view has been obtained. The qualitative findings which supplement the quantitative data come from a larger base of respondents and also include input from production houses and advertising agencies.

Findings (Quantitative)

1. *Total production costs increased 29%.*

Based on the information obtained by the A.N.A. survey, the average cost of producing a single original television commercial jumped 29% from 1984 to 1985. Virtually all the commercials were of 30-second length for all years reported. While we cannot be sure, this was very likely the greatest single-year increase since 1979. The indices shown below list the bench-mark years from the previous survey and show our 1984-85 finding as well.

Average Cost/TV Commercial (%)
1979 - 1985

	1979	1981	1984	1985
Index	50	69	100	129

On top of the sizable percentage increase, for the first time we are experiencing a reasonably broad sample of commercials which exceeded $100,000 in unit cost. A comparison of 1985 costs versus the previous year is shown on the following page.

Average Cost/TV Commercial ($)
1984 - 1985

1984	1985	Change	
		$	%
$97,040	$124,930	27,890	29

(Please note that the above figures do not necessarily reflect average commercial production costs for all U.S. television advertisers. Rather, they are the costs reported for those types of production which were produced by the companies responding to the A.N.A. survey. The percentages of increase are of greater significance in the study than the absolute dollar amount.)

2. *Production hours continued to increase, maintaining a long-standing trend.*
The increase in 1985 was 10% over the previous year. During this added production time, additional units of production cost (e.g., film, sets, props, etc.) were undoubtedly used. Much of the increased time was probably spent in overtime, when crew and talent costs were often at 150 and 200% of straight time rates.

The increase in production time for commercials was established as one of the most important contributors to production cost increases in the 1979-84 period. It appeared again to be a contributing factor in 1985, when the "average" commercial required more than 14 hours to shoot:

Production Hours/Commercial (1985 A.N.A. Base)

1984	1985
12.9 (100)	14.2 (110)

The time required to shoot a typical commercial in 1985 was six hours more than the basic eight-hour shooting day. These numbers suggest that the single-day TV commercial shoot became an unusual occurrence last year.

3. *Production house costs increased 36%.*
These are the costs billed to agencies by production houses and do *not* include editorial work, music or agency miscellaneous expenses which are purchased separately and which will be discussed later in this report. The largest percentage increases were in location expenses (54%), shooting crew labor (47%), film stock (41%), and sets (36%). The crew labor and set cost increases represented particularly large dollar amounts. Increases occurred in every cost component. In the component areas, the average cost increases were as follows:

Production Component Cost Indices Versus 1984
(Excludes Editorial and "Other" Costs)

	1979	1981	1984	1985
Director	54	72	100	129
Preparation/Wrap	47	73	100	131
Shooting Crew Labor	51	71	100	147
Location & Travel*	46	72	100	154
Props & Wardrobe	30	65	100	126
Stage Rental & Set Costs*	35	42	100	136
Equipment Costs	53	69	100	135
Film Stock & Processing	68	93	100	141
Production Fee	51	71	100	131
Talent Costs & Expenses	43	65	100	140
Total Production	N/A	N/A	100	136

*NOTE: Precise year-to-year comparisons of location expenses and set costs are impossible because of the differing number of studio and location jobs in the bases for each year.

The most plausible explanations for these increases are: a) according to the qualitative comments, the greater complexity of commercials and an attempt to generate higher quality advertising, and b) a related increase in shooting time, borne out both qualitatively and quantitatively. As noted in item 6 below, hourly labor rates and material unit costs increased only moderately between 1984 and 1985. The cost increase, then, was based on: a) *the number of units used*--more people, more sets or locations and b) *more time in production.* This represented an acceleration of the pattern noted in the 1979-84 Cost Trends Survey.

4. *Editorial costs sustained a less severe increase of 9%.*
While still above the CPI increase rate (3.5%), this relatively smaller increase in a production cost component could be a product of several factors, including greater competition among editors, crackdowns on editorial overages (reported by several respondents), and a possible tendency for advertisers to have reported certain video finishing costs in the "other" rather than the "editorial" category.

5. *The "other" category was up a dramatic 38%.*
This category of cost, the largest single category in our '84-85 sample, showed a broad range of differences among respondents--nearly doubling in some cases, while staying the same in others. The average increase was $7,435 net per commercial.

The principal reasons for the overall increases were: a) the broadscale inclusion of *original music* in commercials by advertisers who were simply not using much music prior to 1985, b) a sharp increase in *agency travel costs,* which correlates with the 54% increase in location expenses, and c) inclusion of *extra costs* for animation, special effects and some video completion work in this category.

Original music costs, including composition and arranging fees; licenses to use the music; musician and singer fees; recording costs and "mixing"; and electronic sound enhancement costs were typically adding $10,000 or more to net commercial budgets.

In general, the extent to which an individual advertiser's overall cost performance may differ from the averages reported here related directly to the variations in expense items found in this "other" category.

6. ***Unit costs of production and materials in 1985 advanced at a moderate rate, more comparable to the CPI (which increased 3.5% versus 1984).***

Generally, increases in unit costs were quite modest:

- No change (other than 1% P&W increase) in talent session payments occurred as a result of the new SAG/AFTRA contract signed in February 1985.
- Labor increases were in the 5.5-6% range. Probably the most important change was the mandatory addition of a second assistant director (typical $225-250 day rate) for most commercials, which began in March 1985.
- Equipment rental was up an estimated 5% overall. Some items (e.g.,portable light systems) increased 10-15%, balanced out by other equipment items in which there were no changes.
- Paint, hardware and lumber increased about 4%.
- Insurance premiums were up by as much as 30%. Note, however, that insurance still represented only about 2-2.5% of the total net cost.
- On the other hand, costs associated with real estate (stage rental, office rental, etc.) went up significantly in New York. Sources estimated the average increase at around 10%, but production companies which had to renew leases during the year were faced with rents generally double those of three years ago.

Findings (Qualitative)

1. ***What's behind the cost escalation?***

Qualitative comments showed a general awareness that production costs were outstripping the cost of labor and materials. "Costs are going up--and its not all the fault of the unions!" observed one respondent. More complex commercials and attempts to improve production/executional quality were frequently cited as the key reasons for the increase. Added time in production was recognized as a complementary factor in higher production costs. One advertiser commented that he could no longer make a commercial in one day of shooting. Another observed that pre-light days are used "in everything now."

Those few respondents who were able to avoid increasing costs during the year usually pointed to strict controls on production time as a means of cost containment. One respondent stated flatly that he would "not let

an agency overestimate the time needed for a commercial." Rather, he pressed them to "underestimate, in order to guard against the human tendency which says if given more time, people will take more time." Pooling of production proved to be an effective way of controlling costs, according to several responses.

2. *What are agencies doing on cost containment issues?*
Review of the qualitative responses did not reveal a strong general upswing in cost control activity at agencies. About half the respondents indicated their agencies had a "business as usual" approach to TV production issues. One respondent put it this way: "When you consider *what could be done* to control costs...I feel that agencies are really not committed."

Not surprisingly, agencies seemed more responsive to production cost issues when direct client initiatives were taken. Running through many of the responses was evidence of joint client-agency activity. This included the packaging of multiple commercials in one shoot, re-use of elements from other commercials, a striving to find new sources of less expensive production work, and the establishment of guidelines on production scheduling, cost control, and cost approval.

Criticism was leveled at agencies by several respondents who pointed to continued creative group insistence on use of "star" directors or reluctance to seek out and hire "undiscovered" directors. In this regard, one respondent commented, "the more expensive the director, the bigger the crew...the larger the entourage."

On the positive side, some respondents reported that their agencies were strengthening the roles of their own people in commercial cost control. One agency set up a cost control department headed by a senior vice president. According to some responses, agency producers were taking on a more active role in cost containment at their agencies.

Agency creative people were faulted by one respondent for placing their own ambitions above the wishes of their clients to conserve money. Agency personnel were blamed for their unwillingness to work with "lesser known (i.e., less expensive) directors because of the fear of agency screening rooms. Name directors and personal reels still rule the roost."

3. *What seems to be working for advertisers?*

While the jury is still out on some of the approaches or specific cost control measures that were taken by advertisers during 1985, listed below are a few of the more commonly reported tactics being used to deal with increasing costs:

a. *Client restrictions on budgets and production plans.*
Several clients established flat maximum budgets for commercials and required their agencies to work within these limits. One respondent summarized his approach: "Our most effective cost control measure is lower budgets." By providing specific budgets, another advertiser claims the agency was required to investigate more options and was forced to find lower cost sources. Other clients placed restrictions on shooting time, "editorial experimentation," and use of location rather than stage production to save set construction costs.

b. *The bidding process received added scrutiny.*
Added days were being used by several clients to prepare more accurate specifications and to select bidders. More production houses were being asked to bid on a job during 1985. Agencies sometimes bid five or six production houses instead of the usual three--or, after bidding three houses in the "first" tier, rebid the commercials with a "second" level of production houses and directors to find prices more within their client's budgets. Finally, methods of buying production received attention as certain advertisers experimented with firm bid or cost-plus-fixed-fee approaches.

c. *Smaller, local production sources were actively considered for work.*
One advertiser brought a sizable amount of production work from a major production center to the area in which he was located (not a major production center) in 1984, and managed to hold 1985 costs in check. (Another advertiser saw much of his work leave his city for a large production center and reported major cost increases.) In general, advertisers and their agencies seemed more willing to look farther afield for qualified production resources.

d. *Procedures were put into place that made examining costs a critical part of the production approval process.*
Procedures were designed to require review of estimated costs at the agency and by in-house and outside cost experts to allow sufficient

time for the agency to investigate cost-savings opportunities on more jobs, and to carefully audit costs (particularly overages) after production.

e. *Packaging or "pooling" of production work has increased.* Pooling of commercial production work is increasing, which maximizes the use of production time and improves efficiencies in job preparation, casting, set/location utilization, etc. One advertiser's costs dropped 9% from 1984, a result of the pooling of 1985 production.

Conclusions

The reported sizable increase in production costs was disappointing, in light of the emphasis that has been given to the subject by both the A.N.A. and the A.A.A.A. in the past year. The A.N.A. Cost Trend Study in 1985, the A.A.A.A. seminars on cost control in early 1986, and the publication of this study will, we hope, raise further sensitivity to the cost issue and aid in making the buyers of commercial production better informed, both at client and agency organizations.

An increase in the production of 20-second and 15-second commercials this year is expected to have an impact on costs. The creative nature of these commercials tends to be simpler, more single-minded and more direct than the 30-second executions which previously were the almost exclusive commercial format. One advertiser with considerable 15-second commercial experience stated that it was now once again possible to do one (and occasionally even two!) commercials in a production day. To the extent, then, that these shorter commercials replace longer executions, production costs may be reduced. (Of course, if these spots are additions to pools, production budgets overall will increase.)

For the bulk of commercial production, however, it is evident that as long as advertisers are determined to approve and produce more and more elaborate commercials, using more time and more units of production services, labors and materials, the pressures tending to increase costs are going to be great. The first step, and probably the greatest influence in controlling these costs, is a simple commitment to do so--by client and agency alike.

Appendix "A"

A.N.A. Advertising Management Committee Survey on

TELEVISION COMMERCIAL PRODUCTION COST TRENDS

Thank you for your time in responding to this survey. Please return this questionnaire to the A.N.A. no later than Feb. 20, 1986.

IMPORTANT NOTE: Our objective is to make a cost comparison of 1984 and 1985 commercials that are *as nearly identical* in type, format, length and production requirements as possible. Please provide cost data only on these similar types of commercials. Do *not* include dissimilar commercials in your comparison. If your company produced multiple commercials of the same types during each year, an average cost of the commercials should be provided. In this case, please indicate the number of commercials in the base.

In the event that your company did not make similar commercials in 1984 and 1985, please note this on the form and do *not* fill in the comparative cost data. However, we are most interested in your comments and answers to the general questions.

		1984	1985
I.	Unit gross cost of similar commercial including agency commission	_____	_____
	Number of commercials in base	_____	_____
	Number of production hours per commercial	_____	_____
	Comments, if any, on the above data:	_____	

_____

_____

_____

II. Indicate the dollar amounts of the major elements of cost of the selected commercials in 1984 and 1985.

	1984	1985
1. Director	_____	_____
2. Pre-production and wrap	_____	_____
3. Shooting crew labor	_____	_____
4. Location and travel	_____	_____
5. Props and wardrobe	_____	_____
6. Studio and set construction	_____	_____
7. Equipment costs	_____	_____
8. Film stock and processing	_____	_____
9. Production fee	_____	_____
10. Talent costs and expenses	_____	_____
11. Editorial and finishing	_____	_____
12. Other	_____	_____
GRAND TOTAL	_____	_____

III. We are interested in your general comments or observations regarding TV commercial production costs in 1985 versus the previous year.

_____

_____

_____

IV. One of the intended results of the A.N.A. 1977-84 Cost Trends Study was to raise the sensitivity of advertising agencies to TV production cost control opportunities. Please comment on any activities you may have noted at your agency or agencies during 1985 that indicate their responsiveness to the cost control issue.

V. One of the observations made in the A.N.A. Cost Trends Study was that increased production time was contributing to increases in costs. What are your comments regarding the amount of production time required to shoot commercials in 1985 versus 1984?

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